BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-320-E

In the Matter of:	)	
	)	**SUPPLEMENTAL REPLY**
Joint Application of Duke Energy Carolinas,	)	**COMMENTS OF DUKE ENERGY**
LLC and Duke Energy Progress, LLC to	)	**CAROLINAS, LLC AND DUKE**
Establish Green Source Advantage Programs	)	**ENERGY PROGRESS, LLC**
and Riders GSA	)	

Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP" and together with DEC, the "Companies" or "Duke") respectfully submit these Supplemental Reply Comments to the Public Service Commission of South Carolina (the "Commission") in support of the Companies' Green Source Advantage Programs ("GSA Programs" or the "Programs") pursuant to the South Carolina Public Service Commission's (the "Commission") Directive Order issued January 30, 2019. The Companies' Supplemental Reply Comments respond to the final comments filed on March 7, 2019, by the South Carolina Solar Business Alliance, Inc. ("SCSBA"), as well as the joint final comments filed by South Carolina Coastal Conservation League ("CCL") and Southern Alliance for Clean Energy ("SACE," and together with CCL, "SACE/CCL").

BACKGROUND

On October 10, 2018, the Companies filed an application for approval of DEC's and DEP's GSA Programs ("Application"), along with DEC's Rider GSA and DEP's Rider GSA-2 ("GSA Tariffs"). Pursuant to the Commission's Order No. 2018-178-H, initial comments were filed by the South Carolina Office of Regulatory Staff ("ORS"), Walmart, Inc. ("Walmart"), SCSBA, and SACE/CCL on January 7, 2019.

On January 28, 2019, the Companies provided reply comments thereto ("Duke initial Reply

Comments"), along with revised GSA Tariffs. In Directive Order No. 2019-94, issued by the Commission on January 30, 2019, the Commission granted SCSBA's request to file additional comments by March 7, 2019, in order to review the anticipated order from the North Carolina Utilities Commission ("NCUC") on the Companies' similar GSA programs proposed in North Carolina (the "NC GSA Programs") and provide comments in this proceeding based on the NCUC order. On February 1, 2019, the NCUC issued its *Order Modifying and Approving Green Source Advantage Program, Requiring Compliance Filing, and Allowing Comments*, ("NCUC GSA Program Order").[1] SCSBA and SACE/CCL filed final comments on March 7, 2019.

SUPPLEMENTAL REPLY COMMENTS

As described in the Companies' Application, Duke created the GSA Programs at the request of their larger, more sophisticated commercial and industrial ("C&I") customers, in order to assist these customers in achieving their renewable energy goals, while at the same time holding non-participating customers financially neutral from the cost of procuring additional energy under GSA Programs. Since the filing of the Companies' Application, the Companies have adopted several proposals recommended by SACE/CCL and SCSBA in their initial comments, and herein the Companies are adopting several proposals from SACE/CCL's and SCSBA's final comments. The primary remaining issue in contention is the calculation of an alternative bill credit to be paid to participating GSA customers. The Companies also clarify herein the intent of the Programs, which is to allow the participating GSA customer to select a renewable facility under the Programs that is owned by a third party or owned by the Companies.

[1] *Order Modifying and Approving Green Source Advantage Program, Requiring Compliance Filing, and Allowing Comments*, NCUC Docket Nos. E-2, Sub 1170 and E-7, Sub 1169 (Feb. 1, 2019)("NCUC GSA Program Order").

The Companies have attached to these Supplemental Reply Comments six exhibits, as follows:

- **Exhibit A**: DEC Rider GSA (clean)
- **Exhibit B**: DEC Rider GSA (redlined)
- **Exhibit C**: DEP Rider GSA-2 (clean)
- **Exhibit D**: DEP Rider GSA-2 (redlined)
- **Exhibit E**: GSA Service Agreement
- **Exhibit F**: GSA Power Purchase Agreement

A. The GSA Bill Credit

SACE/CCL's and SCSBA's final comments again primarily focus on the manner in which the GSA Bill Credit (defined below) is calculated under the Programs. As the GSA Program Application explains, participating GSA Customers will receive a credit on their bills each month based on the solar production of the applicable GSA Facility(ies) ("GSA Bill Credit").[2] Importantly, because the GSA Facility will be a system generation asset serving all native load customers, as opposed to directly serving the GSA Customer, the cost incurred to purchase the GSA Facility's power (in the form of the GSA Bill Credit) is paid for by the Companies' ratepayers as a purchased power cost under PURPA. Therefore, the issue of ensuring the GSA Bill Credit is accurately and appropriately calculated for the 150 MW of solar capacity available under the GSA Program is of great importance to ensure that non-participating customers are held financially neutral under the Programs.

1. Duke Agrees to a Forecasted Fixed Five-Year Bill Credit Option in Addition to the Hourly Rate Option

[2] Application, at ¶ 16.

To most effectively ensure that non-participating customers are held financially neutral, the Companies designed the Programs to calculate the GSA Bill Credit based upon each utility's avoided cost equal to its day-ahead, real-time hourly rate ("Hourly Rate") for energy and capacity. As discussed in the Companies' Application and initial Reply Comments, the Hourly Rate most accurately represents the cost avoided by the Companies (and ratepayers) as a result of the purchase of capacity and energy from the Renewable Supplier.[3] SACE/CCL's and SCSBA's initial comments opposed limiting the GSA Bill Credit to only the Hourly Rate and pointed the Commission to the Companies' pending GSA Program in North Carolina to suggest that an alternative GSA Bill Credit should be offered based upon the Companies' administratively-determined forecasted avoided cost, to be fixed over the term of the GSA Service Agreement. SCSBA requested a further opportunity to argue about the appropriate GSA Bill Credit after the NCUC issued an order on the NC GSA Program, presumably, in hopes that the NCUC might adopt a position supporting a GSA Bill Credit fixed over a long-term period (and that such a NCUC decision would have some influence on this Commission's determination of the GSA Bill Credit that is accurate and appropriate in South Carolina).

As noted above, the NCUC issued the *NCUC GSA Program Order* on February 1, 2019, approving calculation of the GSA Bill Credit at the Hourly Rate, as well as approving an alternative five-year fixed bill credit option that can be refreshed during the term of the GSA Customer's participation in the GSA Program. The five-year fixed bill credit option in North Carolina is to be calculated based upon DEC's or DEP's five-year forecast of its avoided energy and capacity cost at

[3] Application, at ¶ 16; Duke Reply Comments, at 14 ("The Hourly Rate proposed by the Companies will always be a more accurate calculation of the Companies' actual avoided cost because it represents the cost of the unit available to serve the next increment of customer load during a specific hour as determined on the prior day. This approach removes any risk to non-participating customers that they are paying stale, inaccurate prices for power under the Programs").

the time the GSA Service Agreement is executed.[4]

In order to provide South Carolina customers comparable options to participate in the GSA Program to North Carolina customers, the Companies are agreeable to offering fixed two-year and five-year GSA Bill Credit options to participating GSA customers as recently approved for the NC GSA Programs (along with offering the Hourly Rate). As further discussed in the updated GSA Program tariffs attached hereto, eligible GSA customers may also elect to participate in the GSA Program for longer terms of 10, 15, or 20 years, and, in these circumstances, the fixed five-year GSA Bill Credit would be refreshed and updated during the term of the GSA Service Agreement.

2. A Five-Year Fixed Bill Credit Option at the Companies' Forecasted Avoided Cost Provides a Reasonably Accurate and Appropriate Alternative to the Hourly Rate Option that Minimizes Over-Payment Risk to Non-Participating Customers and Longer-Term Fixed Bill Credit Options Should be Rejected

Even though the NCUC approved a fixed term GSA Bill Credit of five years, SCSBA and SACE/CCL continue to argue that this Commission should approve a fixed GSA Bill Credit based upon the Companies' administratively determined and forecasted avoided cost over 10 years (as recommended by SCSBA) or even longer (up to 20 years as recommended by SACE/CCL).[5] The Companies disagree and continue to believe that offering a GSA Bill Credit fixed for longer than a five-year term creates more significant over-payment risk for the Companies' customers, who, again, will ultimately pay for the power generated by GSA Facilities.

As an initial matter, despite the fact that SCSBA's sole rationale for petitioning the Commission to allow an additional comment period was to allow time for the NCUC to issue the *NCUC GSA Program Order* and for parties to then be able to update the Commission on the NCUC's decision, SCSBA spends minimal time actually discussing the NCUC's sixty-five page order.

[4] *NCUC GSA Program Order*, at 46.
[5] SACE/CCL Final Comments, at pp. 6-7.

Notably, SCSBA wholly avoids discussing the fact that the *NCUC GSA Program Order's* detailed findings and conclusions that a fixed bill credit option limited to five years and refreshed over the term of a GSA Customer's participation in the North Carolina GSA Program was most appropriate to mitigate the over-payment risk for non-participating customers.[6] Indeed, the *NCUC GSA Program Order* specifically found that a bill credit option fixed up to ten years would "place non-participating customers at ***too great a risk*** of overpayment."[7] SCSBA, instead, selectively presents quotes from *concurring* opinions and highlights a newspaper article regarding a prospective GSA Customer's stated dissatisfaction with the fixed five-year bill credit term approved in the *NCUC GSA Program Order*. Ultimately, despite extensive arguments by North Carolina solar developer advocates and prospective GSA customer advocates in North Carolina supporting allocation of future over-payment risk onto non-participating customers and away from solar developer owners of GSA Facilities and participating GSA Program customers, the NCUC determined that the Hourly Bill Credit option and fixed five-year term were most appropriate to meet the objective of the North Carolina GSA Program of holding non-participating customers neutral.[8] The Companies' South Carolina GSA Program, as modified herein, now provides the same GSA Bill Credit options to customers and should be approved.

The Companies also briefly respond to SCSBA's and CCL/SACE's allegations that the Companies' initial Reply Comments mischaracterized the North Carolina Utilities Commission—Public Staff's ("Public Staff") position concerning the risks of reliance upon longer-term, administratively-established avoided costs to determine the GSA Bill Credit. The Companies first

[6] *NCUC GSA Program Order,* at 48.
[7] *NCUC GSA Program Order,* at 48 (emphasis added).
[8] As noted in Duke's initial Reply Comments, both Wal-Mart and Clemson University support the Companies South Carolina GSA Program proposal. *See* Duke initial Reply Comments, at 17, fn. 33.

note that Duke's initial Reply Comments *directly quoted* the Public Staff, including the Public Staff's concern that "to reduce the risk of forecast error, [ ] the initial term of the bill credit should not exceed 10-years." Contrary to SCSBA's and SACE/CCL's comments, the Companies in no way "misled" the Commission or any other party regarding the Public Staff's stated position on the risks of potentially adopting a longer fixed-term GSA Bill Credit[9], and intervenors' assertions to the contrary should be rejected.

In further response to SCSBA's and SACE/CCL's arguments on this issue, the Companies extensively addressed their position on the over-payment risks of fixing longer-term avoided costs rates in the prior Reply Comments filed with the Commission and the Companies will not fully restate all those same arguments again here.[10] Briefly, as previously explained, requiring Duke and customers to pay long-term administratively-established avoided cost rates shifts risk to non-participating customers because it is based on long-term commodity price forecasts and estimates of the utility's future avoided cost instead of the utility's actual avoided cost of energy at the time the generation is being produced. The longer the forecasted term extends over which avoided costs are fixed, the greater the "over-payment risk" that changing market conditions will result in fixed forecasted rates paid by non-participating customers exceeding the utility's actual avoidable cost of generating electricity.[11] This increased risk is inherent with forecasting any future activity: the longer

[9] To avoid any further confusion, and to ensure the record before the Commission is clear, the *NC GSA Program Order* at page 33 characterized the Public Staff' position as follows:

> "The Public Staff states that it believes that a contract term under the GSA Program, along with a fixed bill credit of equivalent length, would result in non-participating customers facing overpayment and underpayment risk for the same reasons articulated in the Commission's final Order in the 2016 Avoided Cost Proceeding, thereby violating the neutrality concept required by N.C.G.S. § 62-159.2(e)."

[10] Duke Initial Reply Comments, at 12-17.

[11] The Companies' initial Reply Comments highlighted NARUC's recent testimony to Congress and filings at FERC that "administrative pricing essentially requires States to guess at future market prices, allowing QFs to lock in rates that often substantially overstate the actual avoided cost" and recent experience in Idaho and Montana where

the forecast, the greater risk for inaccuracy. Because a primary objective of the GSA Program is to hold non-participating customers neutral to the cost of power procured from GSA Facilities, setting the GSA Bill Credit based on a five-year forecast of avoided costs as opposed to the ten-year (or longer) forecast, as advocated for by SCSBA and SACE/CCL, will provide a more accurate and appropriate approach to forecasting the Companies' future cost of energy and capacity and will reduce the risk of significant over-payment to non-participating customers.

Moreover, because the *NCUC GSA Program Order* rejected SCSBA's position, SCSBA attempts to now muster new arguments in its final comments in an effort to support a longer fixed-term GSA Program Bill Credit. For example, SCSBA argues that the Companies have acknowledged the benefit to ratepayers of procuring QF power under long-term rates by offering 20-year contracts under the Competitive Procurement for Renewable Energy Program ("CPRE Program").[12] However, SCSBA fails to acknowledge that the price of energy and capacity procured pursuant to the CPRE Program is not set at the utility's 20-year administratively-established avoided cost, and therefore is not based on long-term forecasting. Instead, the cost is competitively determined based on a competitive bidding process where participants compete for contracts to deliver energy at their lowest price. As recently recognized by NARUC and cited in the Companies' initial Reply Comments, competitively procuring QF power or relying upon market clearing prices mitigates the inaccuracy and risk of over-payment and administratively determined avoided costs.[13] SCSBA's and SACE/CCL's comments with regard to the Companies' proposed 10-year terms for standard offer contract[14] are similarly distinguishable, as these contracts are only eligible to projects that are 2MW. The same risk exists that ratepayers will be paying above-market prices under these contracts, but

"administratively forecast avoided-cost rates have dramatically overstated the actual market price of electricity."
[12] SCSBA Final Comments, at p. 4.
[13] Duke initial Reply Comments, at Fn. 11.
[14] SCSBA Final Comments, at p. 4.; SACE/CCL Final Comments, at p. 8.

the magnitude of the risk is reduced by limiting such long-term contracts to a small volume. Moreover, the terms of the settlement agreement entered into between SCE&G/Dominion and SCSBA related to contract length for qualifying facilities ("QFs") under PURPA are irrelevant here;[15] the question of QF contract length was not before the Commission in the SCE&G/Dominion merger proceeding and the Commission's approval of that settlement agreement has no bearing on the outcome of the manner in which the GSA Bill Credit should be calculated.

SCSBA also raises testimony recently provided by Glen Snider, Director of Resource Planning an Analytics for the Companies, before the South Carolina Senate Judiciary Subcommittee.[16] Mr. Snider testified against legislation that would require the Commission to set the length of certain QF contracts at 10 years or greater. Mr. Snider advocated for allowing the Commission to determine the appropriate contract length of such QF contracts, with a 10-year contract being the maximum length the Commission could require, as opposed to the minimum length. To that end, Mr. Snider's testimony is consistent with the Companies' position here – that long-term fixed administratively-established avoided cost rates create significant over-payment risk for customers and that DEC and DEP have seen first-hand the significant impacts of stale, over-priced contracts on ratepayers.

In sum, while the Companies are willing to offer an alternative to the Hourly Rate GSA Bill Credit, the Companies believe any fixed price should be limited to a five-year period and calculated at the Companies' then-current avoided cost rates, as opposed to those rates on file with the Commission pursuant to Schedule PP. SACE/CCL's and SCSBA's GSA Bill Credit options do not hold nonparticipants neutral and instead result in increased risks of additional costs being assigned

[15] SCSBA Final Comments, at p. 4.; SACE/CCL Final Comments, at pp. 8-9.
[16] SCSBA Final Comments, at p. 4

to non-participating customers.

B. Limitation on Subscribed Capacity

SACE/CCL again recommend that the GSA Programs should allow participating customers to procure up to 125% of those customers' *energy usage*, as opposed to 125% of the customers' *contract demand*, as proposed by the Companies.[17] SACE/CCL believe that expanding the program in this manner would "help ensure that the 150 MW of program capacity was fully subscribed."[18] The Companies reiterate that they have no indication that the Program will not be fully subscribed; to the contrary, eligible customers have expressed significant interest in the Program. Moreover, restricting participating customers to subscribing to only 125% of their contract demand, as opposed to energy usage, allows more customers to participate in the Program. Accordingly, the Companies do not support this change.

C. GSA PPA Term Length

Additionally, again SACE/CCL recommend that the Companies allow GSA PPAs with contract lengths that are consistent with the requirements of House Bill 589 (from two years to 20 years in length).[19] The Companies are agreeable to extending the length of the GSA PPAs to 20 years in length, so long as any fixed GSA Bill Credit is limited in the manner described in Section A. Revisions illustrating this change to Riders GSA are included herein as Exhibit A and B (redlined) for DEC and Exhibit C and D (redlined) for DEP.

D. Filing of GSA Service Agreement and PPA

SACE/CCL and SCSBA renew the same arguments set forth in their Initial Comments related to the Companies' filing of the GSA Service Agreement and GSA PPA.[20] In response to

[17] SACE/CCL Final Comments, at pp. 10-11.
[18] *Id*., at p. 11.
[19] SACE/CCL Comments, at p. 9.
[20] *Id*., at pp. 9-10.

these comments, the Companies have attached hereto the GSA Service Agreement as Exhibit E and the GSA PPA as Exhibit F.

E. Duke Energy ownership of GSA Facilities

In the NC GSA Programs, as approved by the *NC GSA Program Order*, the participating GSA customer may select a renewable facility (to serve as the GSA Facility) that is owned by the Companies or owned by a third party. While the Companies did not raise this issue specifically in their Application, for the avoidance of doubt, the Companies' clarify that under the Programs, eligible GSA customers requesting to participate in the SC GSA Programs would similarly have the option to enter into a GSA Service Agreement for a GSA Facility that is owned (or will be owned) by an independent third-party developer or by DEC or DEP under their respective GSA Programs. If a participating GSA customer elects a renewable energy facility that will be developed and/or owned by Duke to serve as the GSA Facility, then the applicable Company would serve as the Renewable Supplier for purposes of the GSA Service Agreement.[21] To ensure non-participating customers are not impacted by a participating GSA customer's decision to select a Company-developed (or Company-owned) renewable facility under the GSA Programs, the costs the Company would seek to recover in such instance would be limited to the amount of the GSA Bill Credit paid to the participating GSA customer. That is, the costs of any renewable facility developed under the GSA Program that the applicable Company would seek to recover from non-participating customers would be limited to only the GSA Bill Credit, regardless of whether the renewable facility is owned by one of the Companies or owned by a third-party developer.[22] The Companies acknowledge that this

[21] A PPA would not be required in these circumstances because DEC or DEP would own the GSA Facility.
[22] The Companies would seek to recover the cost of the GSA Bill Credit paid to a participating GSA customer originating from a Company-owned GSA Facility in a base rate case and not through the annual fuel proceeding.

detail of the Programs has not been previously raised, and that other parties may want the opportunity to comment on this clarification, to which the Companies are not opposed.

CONCLUSION

WHEREFORE, based on the foregoing and the information presented in the Application, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC respectfully request that the Commission approve the GSA Program and GSA Program Tariffs as modified as presented through these Supplemental Reply Comments.

Respectfully submitted this 28th day of March 2019.

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